

Message Text

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PAGE 01 PARAMA 00508 251446Z

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E.O. 11652: N/A

TAGS: EMIN, EIND, NS

SUBJECT: BILLITON/SHELL VIEWS ON BAUXITE COMPANY PAYMENTS TO
GOS

REF: PARAMARIBO 0465 (NOTAL)

1. HEAD OF ROYAL DUTCH SHELL-SUBSIDIARY N.V. BILLITON
MAATSCHAPPIJ SURINAME AND SENIOR SHELL MAN IN SURINAM, FRANS
JACOBS, VIEWS FORTHCOMING TALKS BETWEEN GOS AND BAUXITE-
PRODUCING COMPANIES WITH MISGIVINGS. ALTHOUGH AS PRIVATE
INDIVIDUAL HE PURPORTS TO SEE JUSTICE IN DEMANDS BY PRODUCING
COUNTRIES FOR LARGER SHARE OF BAUXITE COMPANY EARNINGS, JACOBS
IS WORRIED THAT BILLITON, MUCH THE SMALLER OF TWO BAUXITE
COMPANIES IN SURINAM, MAY NOT BE ABLE ABSORB INCREASED LEVIES
AS READILY AS THE ALCOA SUBSIDIARY, SURALCO.

2. AS FULLY INTEGRATED COMPANY, SAYS JACOBS, SURALCO ABLE
ABSORB INCREASED COSTS AT VARIOUS STAGES OF PRODUCTION AND
PROCESSING, AND SO IS ABLE TO ADJUST COSTS IT PASSES ON TO
END-USERS. THUS JAMAICA'S NEW LEVIES, LARGE AS THEY ARE,
ADD ONLY FEW CENTS TO COST OF POUND OF ALCOA ALUMINUM. BUT
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PAGE 02 PARAMA 00508 251446Z

BILLITON, WITH LITTLE CALCINING AND NO ALUMINUM SMELTING

CAPACITY (IT MAKES USE OF SURALCO'S CALCINATION FACILITIES FOR A FEE), WOULD HAVE NO CUSHION AGAINST NEW LEVIES ON THAT ORDER AND WOULD BE FORCED TO ASK HOLDERS OF LONG-TERM BAUXITE AND ALUMINA SUPPLY CONTRACTS TO RENEGOTIATE AT MUCH HIGHER AND UNCOMPETITIVE PRICES.

3. JACOBS FEARS THAT BILLITON'S CUSTOMERS WOULD QUICKLY SEEK NEW SOURCES OF SUPPLY IF AND WHEN CONFRONTED WITH ONE-SIDED PRICE INCREASE AND THAT, UNDER THESE CONDITIONS, BILLITON CONCEIVABLY COULD GO OUT OF BUSINESS. COMPANY'S BEST HOPE OF AVOIDING THIS, HE BELIEVES, LIES IN MOVE WITHIN THE INTERNATIONAL BAUXITE ASSOCIATION (IBA) TO IMPOSE UNIFORM LEVIES AND PRICING ON BAUXITE PRODUCTS. JACOBS THINKS SECRETARY-GENERAL OF IBA, HENRI GUDA, FAVORS SOME SUCH SYSTEM, ALTHOUGH GUDA HAS TOLD US AND SURALCO HE BELIEVES EACH CASE SHOULD BE APPROACHED INDIVIDUALLY ON A COUNTRY-BY-COUNTRY BASIS.

4. LIKE BUSTION OF SURALCO, JACOBS HAS HEARD NOTHING FROM GOS ON OPENING DATE OF GOS/COMPANY TALKS. ALTHOUGH GOS HAD HOPED TO START TALKS THIS MONTH, GOVT. COULD NOT FIND THE TIME. PUBLIC WORKS MIN KARAMAT ALI TOLD CONSUL GENERAL YESTERDAY GOS NOW PLANNING NEGOTIATE WITH COMPANIES LATTER HALF OF NOV.

5. COMMENT: MAKING ALLOWANCE FOR HYPERBOLE, IT IS PROBABLY TRUE THAT BILLITON IS IN A MORE DIFFICULT FINANCIAL POSITION THAN SURALCO. BUT IF BILLITON'S FINANCES ARE VULNERABLE, ITS POLITICAL POSITION APPEARS SOUND. JACOBS HAS BEEN CAREFUL TO CULTIVATE THE NEW GOVERNMENT AND APPARENTLY HOPES TO CEMENT SPECIAL RELATIONSHIP WITH GOS THAT WILL INSULATE COMPANY FROM FUTURE VICISSITUDES. FOR EXAMPLE, HE LOSES NO OCCASION TO REITERATE BILLITON'S ATTACHMENT TO GOVERNMENT'S EGALITARIAN OBJECTIVES AND JOINT VENTURE POLICY; HE AWAITS WITH EQUANIMITY THE TIME WHEN GOS EXERCISES ITS 25 PERCENT EQUITY OPTION AND BECOMES A MAJOR BILLITON STOCKHOLDER. JACOBS CLAIMS HE TOOK THE INITIATIVE IN SETTING UP THE FIRST INFORMAL GOS/COMPANY MEETINGS ON INCREASED BAUXITE LEVIES. IT IS AN OPEN SECRET THAT BROTHER OF MINISTER OF HEALTH BRAHIM WILL BECOME MANAGING DIRECTOR OF COMPANY NEXT YEAR. AND BILLITON IS PROCEEDING WITH PLANS TO BUILD CALCINATION PLANT AT SMALKALDEN (IN A LIMITED OFFICIAL USE

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PAGE 03 PARAMA 00508 251446Z

JOINT VENTURE WITH ALCAN AND GOS), ONE OF FEW LARGE NEW INVESTMENT PROJECTS TO BE STARTED IN SURINAM THIS YEAR, A FACT CERTAINLY NOT LOST ON GOS.
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